1967 Annual Report
Chicago, Burlington & Quincy Railroad Company

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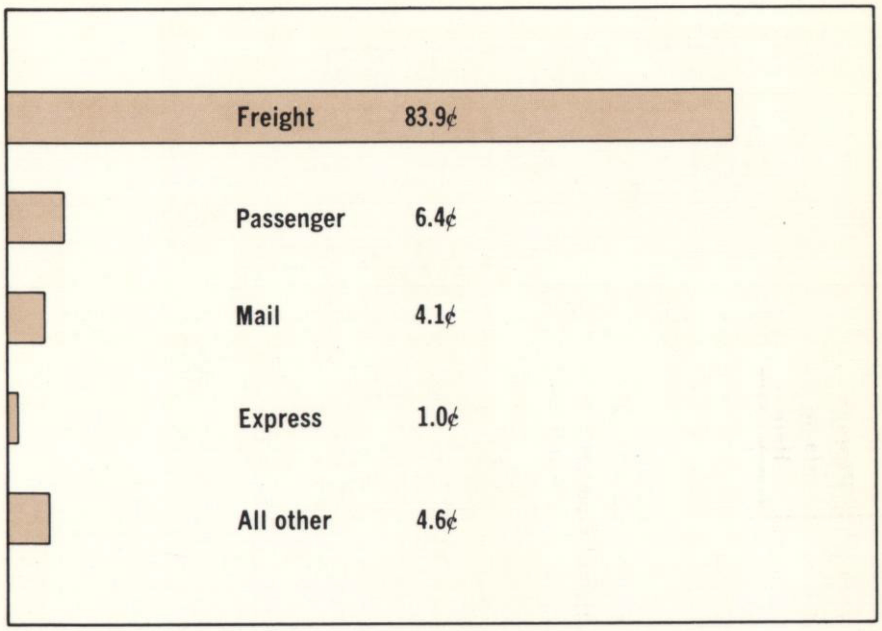
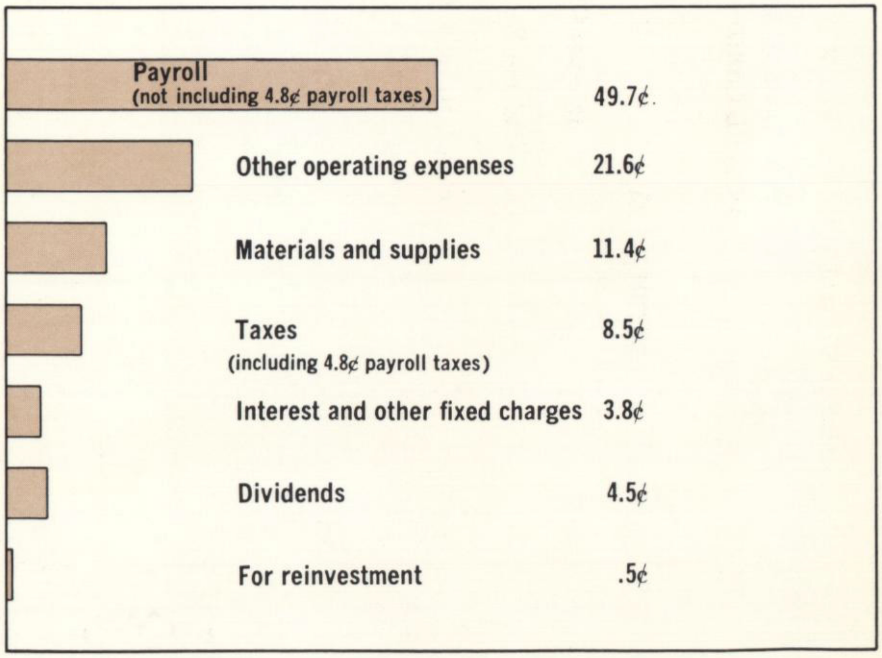
Sources of the 1967 Income Dollar



Disposition of the 1967 Income Dollar



Principal Office
BURLINGTON BUILDING · 547 WEST JACKSON BOULEVARD · CHICAGO, ILL. 60606

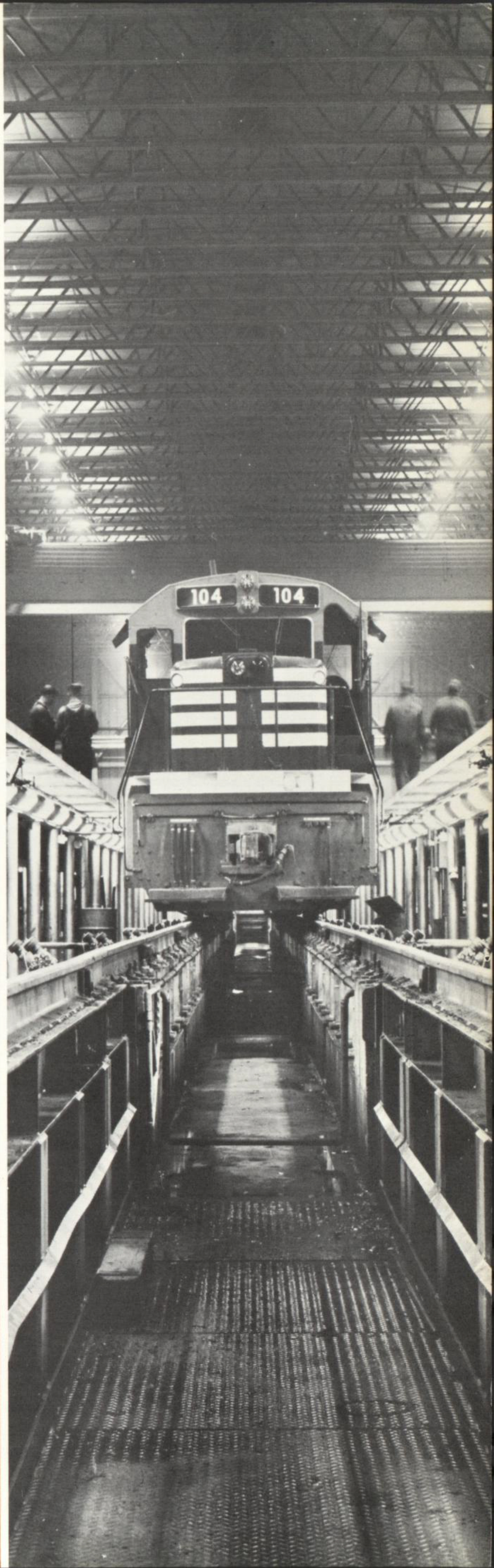
A SUPPLEMENTARY REPORT CONTAINING ADDITIONAL OPERATING AND FINANCIAL STATISTICS MAY BE OBTAINED UPON REQUEST TO THE SECRETARY OF THE COMPANY AT 547 WEST JACKSON BOULEVARD, CHICAGO ILLINOIS, 60606.

Highlights

	1967	*1966*	Increase or *Decrease*
****Consolidated Operations***			
Operating Revenues	$327,739,915	$347,011,232	$ *19,271,317*
Operating Expenses	$268,578,554	$273,298,081	$ *4,719,527*
Taxes—Other Than Income	$ 28,184,402	$ 24,707,815	**$ 3,476,587**
Income Taxes	$ 250,000	$ 5,500,000	$ *5,250,000*
Available for Fixed Charges	$ 25,141,383	$ 41,849,748	$ *16,708,365*
Fixed Charges	$ 11,990,782	$ 10,742,782	**$ 1,248,000**
Net Income (Page 14)	$ 12,593,365	$ 25,082,397	$ *12,489,032*
C. B. & Q. R. R. Co. Operations			
Operating Revenues	$277,084,008	$289,622,347	$ *12,538,339*
Operating Expenses	$225,552,194	$227,622,927	$ *2,070,733*
Operating Ratio	81.40	78.59	**2.81**
Total Taxes (Page 8)	$ 23,900,365	$ 25,738,844	$ *1,838,479*
Available for Fixed Charges	$ 24,926,442	$ 33,366,874	$ *8,440,432*
Fixed Charges	$ 10,675,894	$ 9,556,282	**$ 1,119,612**
Times Fixed Charges Earned	2.33	3.49	*1.16*
Net Income—ICC Basis (Page 18)	$ 14,250,548	$ 23,810,592	$ *9,560,044*
Dividends Paid	$ 12,812,902	$ 12,812,902	$ —
Averages per Share of Stock:			
Taxes	$ 13.99	$ 14.33	$ *.34*
Net Income—ICC Basis	$ 8.34	$ 13.94	$ *5.60*
Dividends Paid	$ 7.50	$ 7.50	$ —
Average Number of Employes	17,886	18,969	*1,083*
Total Wages	$136,974,620	$136,979,693	$ *5,073*
Tons—Revenue Freight	59,673,881	61,693,743	*2,019,862*
Ton Miles—Rev. Frt. (000)	19,564,522	20,500,600	*936,078*
Avg. Rev. per Loaded Car Mile—Rev. Frt.	$ .46399	$ .44196	**$ .02203**
Net Ton Miles (000)	19,915,374	20,830,781	*915,407*
Train Miles—Freight	11,951,701	12,728,522	*776,821*
Ton Miles per Train Mile	1,666.32	1,636.54	**29.78**
Avg. Miles Hauled—Rev. Frt.	327.86	332.29	*4.43*
Gross Ton Miles per Train Hour	74,861	72,605	**2,256**
Miles of Road Operated	8,538.09	8,556.77	*18.68*
Passengers Carried—Revenue	11,035,471	10,981,863	**53,608**
Passenger Miles—Revenue	723,324,334	834,498,591	*111,174,257*
Avg. Miles Carried	65.55	75.99	*10.44*
Avg. Pass. Miles per Car Mile	21.54	21.84	*.30*
Train Miles—Passenger	6,967,151	7,811,297	*844,146*

MAY 1 0 1968 Co.

*Including subsidiary companies listed on page 21. Annual reports of these Companies are on file in the office of the Secretary.



Three working levels at modern Lincoln diesel shop.

The One Hundred Fourteenth Annual Report of the Chicago, Burlington & Quincy Railroad Company

William J. Quinn

To Our Shareholders:

To the Burlington, the most important and encouraging news of the year occurred when the Interstate Commerce Commission, by its decision of November 30, 1967, approved the merger of the Company with the Great Northern, Northern Pacific and Spokane, Portland & Seattle railways. The union, hopefully, will be consummated in 1968. The broad scope and strength of the new Company will allow greater resources to be brought to bear on the present and future problems of railroading.

This multiplied effectiveness will enable a modern, vigorous organization to play a vital part in the continued development of the vast area it will serve.

Representatives of the Burlington have been working closely on committees with their counterparts on the Great Northern, Northern Pacific and Spokane, Portland & Seattle railways to plan for the smooth transition to unified operation when merger day arrives.

Operating results in 1967 were a disappointment to the Burlington, as they were to the railroad industry generally, though the year did provide the Company with the second highest revenues in its history.

Consolidated operating revenues of $327,739,915 compare with $347,011,232 in 1966. Consolidated net income of $12,593,365 compares with $25,082,397 for the previous year.

For the Chicago, Burlington & Quincy alone, operating revenues of $277,084,008 compare to $289,622,347 the previous year, and net income of $14,250,548 compares to $23,810,592 in 1966.

A variety of factors combined to depress net income. Wage costs rose sharply as a result of industry pattern negotiations. Lost traffic and higher operating expense resulted from the most severe winter blizzards in many years. Nevertheless, tight control of expenses, plus the benefits of operating efficiencies, effected an overall reduction to $225,552,194, from $227,622,927 the previous year.

Agricultural areas served by the Burlington produced excellent grain crops, but the volume offered for transportation was adversely affected because of a weak price structure. Additionally, the Federal government markedly reduced its export of domestic grains, which contributed so importantly to Company revenues the previous year.

Shipments of lumber, steel and other building materials declined as home and highway construction slowed. The July strike of railroad shopcraft workers was costly, as were strikes in the copper and automobile industries.

The passenger train problem continued to be acute throughout the year. Because the volume of long-haul passenger business, as distinguished from suburban commuter operations, declined sharply in 1967 over previous years, the effect of wage increases on passenger train operations soon became evident. With passenger train losses mounting, it was necessary to take steps to discontinue trains which served no public convenience or necessity and which were operating at substantial out-of-pocket losses. The Company was successful in obtaining approval for the discontinuance of several such trains.

In addition to the merger decision, there were other encouraging developments in 1967. The Company's marketing and traffic research personnel were strengthened, and gained in effectiveness. An enlarged training program provided more advanced education for various levels of management. A new microwave installation improved the communications network and was an important forward stride in providing vital support for sophisticated computer programs, scheduled to become operational in 1968, which will greatly enhance the Company's competitive abilities. Plans for one of the most advanced and efficient systems to provide real time information, for management and patrons, on the location and utilization of freight equipment are fast coming to fruition.

A more detailed discussion of 1967 developments is to be found in the balance of this report.

The Board of Directors is deeply appreciative of the loyalty, dedication and effort manifested by Burlington officers and employees throughout the year.

William J. Quinn
President

Late afternoon at modern Cicero (Ill.) automatic classification yard.

Freight Traffic

Not only were Chicago, Burlington & Quincy freight revenues of $233.8 million the second highest in the history of the Company, but their relative importance to total revenues reached a new high of 83.9%.

The average amount received for hauling a ton of freight one mile turned up in 1967, from 1.178¢ in 1966 to 1.195¢, reversing a downward trend that began in 1958. The average number of tons per train mile increased to 1,666, from 1,637 the previous year.

A decline in freight revenues of 3% was attributable largely to the limited release of government-owned grain for export purposes; in 1966, there had been a substantial movement of export grain. Auto shipments declined when auto sales lagged in the first half of the year, and because of strikes in the automotive industry in the latter half. A lower level of commercial, residential and highway building had an adverse effect upon construction supplies traffic.

Sales and Service Traffic salesmen—some 197 in 59 sales offices throughout the United States and Canada—now are furnished detailed statistical data about traffic volume and characteristics of present and potential customers in their sales areas. Computerized data about individual customers, after combining with industry-wide studies conducted by the market research department, provide salesmen information essential to their sales job, as well as a broader perspective of the traffic composition of their respective territories. Before this melding of computerization and market research techniques, such information was not available as a regular working tool.

Quality Control Closely monitoring the performance of freight shipments, this new department within the traffic department has been providing its findings to traffic and operating officers as well as to shippers. One important result has been the better utilization of special equipment, benefitting the Company by at least $400,000 annually.

Freight Pricing On August 19, 1967, Burlington and other railroads of the nation were granted freight

Burlington Route
CUSTOMER SERVICE OFFICE

Innovation for branch lines: agent service direct to each shipper's door.

Container loads of Japanese electronic wares are unloaded at Cicero yard, on Chicago's western limits.

WHITING
AIWA SELECTRON
MitsuiO.S.K. Lines

rate increases ranging from less than 3% on some carload commodities to 5% on shipments moving under class rates. The increase, unfortunately, failed to offset the cost of wage increases and fringe benefits granted employees by industry-wide pattern settlements.

During 1967, negotiations were concluded for the operation of unit coal trains from Old Ben Coal Company mines at Sesser (Ill.) to the Oak Creek (Wis.) power plant of Wisconsin Electric Power Company. The contract calls for one million tons annually to be carried in two 10,000-ton, shipper-owned unit trains each week.

On-Flat-Car Traffic One of the glamour categories of modern railroading, trailers on flat car, or "piggyback", gained 13.7% to 83,169 units. Its growth has required the assignment, at Chicago's Cicero automatic yard, of two rubber-tired, electric-wheeled cranes, largest and most flexible in railroading. The trend to containerization promises to open new sources of traffic, and to regain some lost to other modes. Freight loaded into containers can be transferred from railcar to ship or truck with a minimum of handling cost, documentary red tape and pilferage. To a railroad, the containers provide a lower center of gravity when on a car, less weight than a truck trailer, lower clearances (important to some of Burlington's connecting railroads) and the flexibility of transfer to a truck chassis for door-to-door delivery or to an ocean-going vessel. In 1967 Burlington delivered the largest single containerized shipment ever to Chicago: 60 containers of Japanese electronic products. Automobiles carried on multi-level rack cars, another growth operation in recent years, suffered, unfortunately, a 37% decline because of strikes in the automotive industry. It is expected 1968 will be a more normal year for this traffic.

Coal The outlook for this important commodity, which has meant so much to the Burlington over the years, grows ever brighter. A new strip mine and two new deep-shaft mines will begin operation in 1968. A third aluminum-car coal train for Union Electric Company service, between Sesser (Ill.) and Machens (Mo.), will be built in 1968, and 300 steel cars of 100-tons capacity will be purchased for other coal shipments.

Unit train of aluminum-and-steel cars loads at Old Ben mine for 133-mile trip to Union Electric Company plant.

Burlington

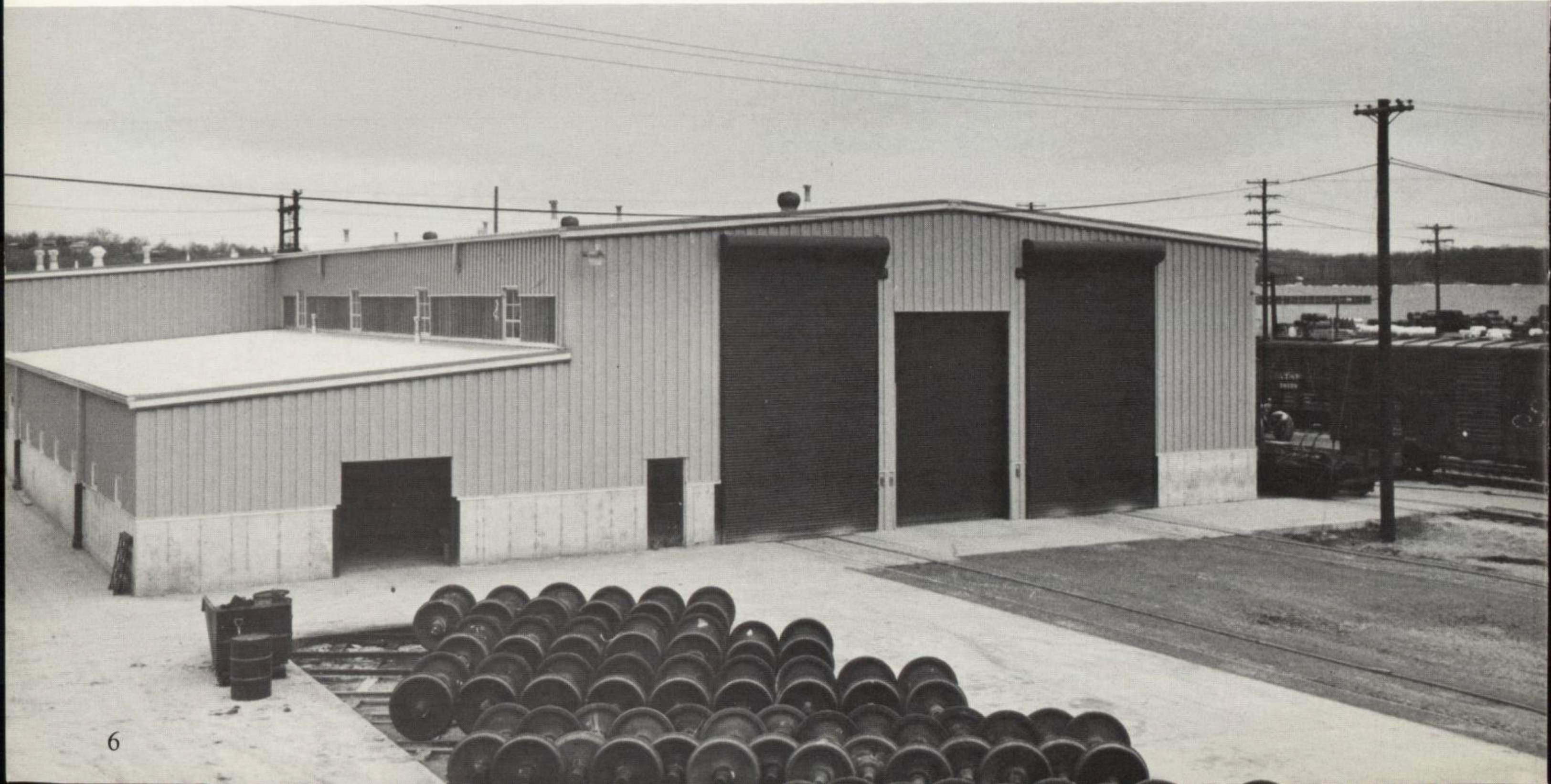
Heavy repairs at Lincoln (Havelock) shop.

Improvements

For many years the Company has conducted an aggressive program of modernizing and upgrading its physical plant. This policy of constant renewal was evidenced in 1967 by the purchase of 903 new freight cars, the construction of 850 others in Company shops, the purchase of 14 high-speed, diesel freight locomotives, and the purchase or lease of 359 piggyback trailers. All freight cars were equipped with roller bearings, a practice followed throughout the past decade.

Additionally, 2,411 cars were given heavy repairs to like-new condition at the Lincoln shops. A modern, one-spot freight car repair facility was put into operation at the automatic yard now under construction at North Kansas City. The Plattsmouth (Neb.) work force of subsidiary Burlington Refrigerator Express Company was relocated to modern and more efficient quarters at Lincoln. Modernization of Lincoln's heavy-repair car operations was nearing completion at year's end, as was the expansion of piggyback facilities at Pacific Junction, Iowa.

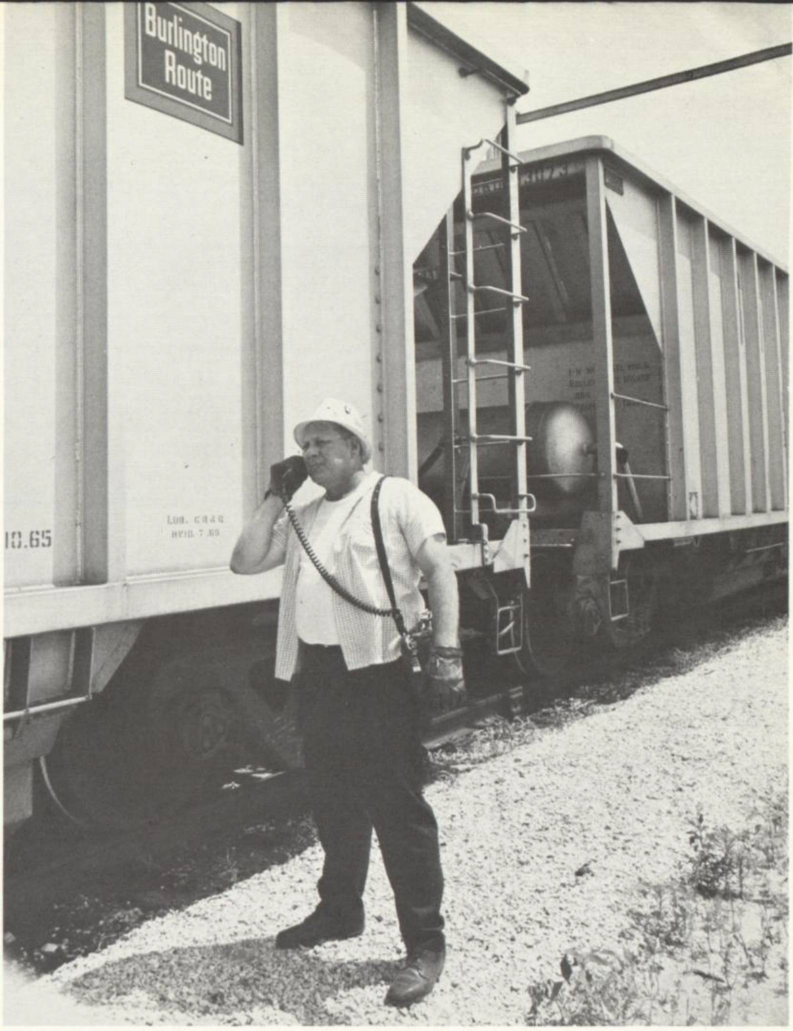
Service improvements attractive to customers were made during the year. Direct freight car interchange at Chicago was established with additional connecting railroads, to provide significant time savings. Changes in



grouping of trains and locomotive requirements made it possible for high-speed, transcontinental freight trains to bypass the Lincoln yard, a saving of 60 to 90 minutes.

Communications A high-capacity microwave network was placed into operation between Chicago and Galesburg September 1, and relay towers and other complementary facilities were extended to Lincoln and Omaha by year's end; full service to these latter points will occur in 1968. Direct teleprinter service was established between major yards and the computer center at Chicago. Direct dial telephone service will be expanded to Hannibal, Kansas City and Galesburg in 1968. (See Management Information Services for data-processing-computer achievements).

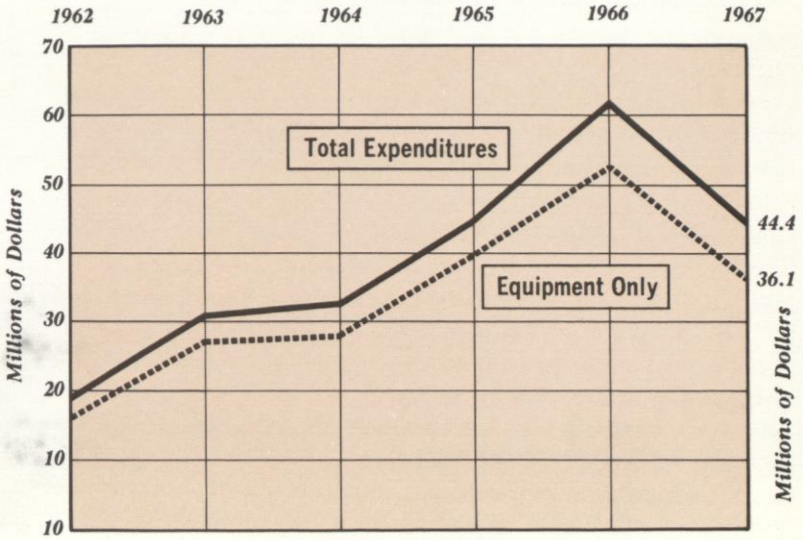
Signaling Centralized traffic control, by which a dispatcher can control many miles of train operation from a remote location, was extended to include additional portions of the Chicago-Galesburg main line. To make possible 70 miles-per-hour operation of freight trains and therefore permit schedule reductions, signals were rearranged between Galesburg and Ewbanks (Ill.) to allow the greater braking distances required by high-speed operation.



Portable radio telephones speed train operations, aid safety.

Capital Expenditures

	Gross	Retirements	Net
Road	$ 6,886,566	$ 3,715,823	$ 3,170,743
Equipment	36,140,193	16,134,145	20,006,048
General	—	—	—
Construction work in progress	1,387,708	—	1,387,708
Total	$44,414,467	$19,849,968	$24,564,499



Modern repair shop at North Kansas City.

General

Dividends A dividend ($7.50 per share) was paid in 1967, the 106th consecutive year that dividends have been paid.

Taxes In 1967 taxes decreased $1,838,479 compared with 1966:

Federal Income Taxes	($ 200,249)	$5,507,758	Decrease
Federal Railroad Retirement Taxes	10,284,444	1,090,314	Increase
Federal Unemployment Taxes	3,352,189	191,871	Decrease
State and Miscellaneous Taxes	10,463,981	2,770,836	Increase
Total in Income Account (Page 18)	$23,900,365	$1,838,479	Decrease

The investment tax credit was restored effective March 9, 1967, and the maximum allowable limitation raised from 25% to 50%. The carry-over period to permit fuller use of available credit also was extended. As of December 31, 1967, accumulated unused investment tax credits of approximately $10,800,000 are available for carry forward to future years.

The Company currently is litigating a number of tax issues involving refunds for the years 1948 to 1955, inclusive. Due to offsetting issues that the government is raising, an estimate of the potential recovery is not possible. Normal audits, for the years 1956 to 1964, inclusive, are being performed by the Internal Revenue Service.

In spite of an overall reduction in ad valorem tax assessments, tax (mill) rates climbed, in many instances, because of the cost of increased educational and other governmental services, raising Burlington's tax payments by $2.7 million. Both 1966 and 1967 Missouri property tax assessments are being litigated.

Cost and Financial Analysis To better implement long range planning by all departments, a new cost and financial analysis section broadens the analytical services available to management. Increased emphasis is placed on capital investment decisions, capital financing alternatives and operating alternatives. The section continues to furnish information concerning cost of freight services as well as financial data for passenger train discontinuances, line abandonments and station closing hearings.

Management Information Services The Company's ability to provide data processing services was greatly enhanced by the installation of two IBM System 360/40 computers of expanded core capacity, supported by accessory equipment, which permitted release of two computers of lesser capabilities and a major portion of the tabulating machine section. Nearly 1400 operating programs were prepared in System 360 language.

Installation of a teleprocessing system, for operation in the first quarter of 1968, makes possible real time updating of movement records kept for each freight car, locomotive and caboose operating on the railroad. In 1968, direct data input to the computer will be furnished by some 50 printers in key yards, and immediate access to the computer's "memory" file will be available to Company offices and to shippers by means of both remote Telex and TWX communication systems. Cathode ray tube devices will be furnished those in the Chicago general office required to provide prompt answers concerning car location.

Data specialists discuss daily report, one of hundreds concerning car movement, train operations, accounting details and others of value to management.

Public Relations-Advertising A series of "Burlington Wheel" print advertisements, together with humorous radio commercials, attempted to convey the determination of the Company to be aggressively service-minded. Through its public relations effort, the Company has sought to acquaint the press and public with its progress, and to explain such basic railroad problems as money-losing passenger services.

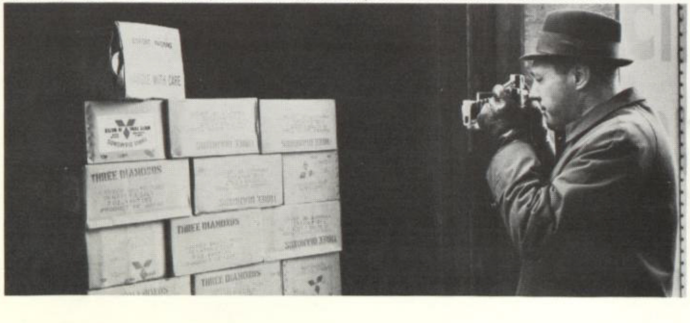
Visiting professor Yale Brozen, U of Chicago, addresses management class.

Training The training department continued its programs in managerial skills and transportation selling, using many of the latest techniques of audio-visual presentation. Management employees received 2,938 man-days of training in the Company's classroom, located on the eighth floor of the Chicago headquarters building, and 400 employees attended outside courses in public speaking and personal development. Formal management development courses were attended by executives at Harvard, Columbia, American, Chicago, Northwestern and Stanford universities.

Safety-Rules The downward trend of employee injuries noted in 1966 continued in 1967, during which a decline of about 15 percent was recorded.

Security-Claim Prevention The previous year, this department was reorganized and given added authority so as to better enable it to reduce the extent of damaged shipments and resulting freight claims. In 1967, Burlington's freight claim payments decreased by $882,652, or 17.1%, compared to an average increase of 7.3% for the nation's railroads as a whole.

Special agent photographs damaged shipment for clue as to cause.



Employee Benefits Premiums totaling $5,288,606 were paid for the five group life and hospital insurance plans covering employees and their dependents – $4,708,110 for plans covering union employees and $580,496 for the plan covering officers and non-union employees. Payments of $733,144 were made by the relief department to employees and their beneficiaries for disability and death claims. This is an employee-financed department whose operating expenses are underwritten by the Company.

Pension payments of $1,735,572 were made to 650 retired officers and employees and 276 widows under the supplementary pension plan.

Federal taxes of $10,284,444 were paid for retirement and survivor benefits (under the Railroad Retirement Act) and for Medicare. Similar taxes in 1966 were $9,194,130. The increase in 1967 resulted from amendments to the Act to add an excise tax of 2¢ per man-hour to finance a supplemental annuity program, and an increase in the Railroad Retirement tax rate from 7.95% in 1966 (including 0.35% for Medicare), to 8.65% in 1967 (including 0.5% for Medicare). Effective January 1, 1968, the tax base was moved from $550 to $650 per month and the tax rate was increased to 8.9% (including 0.6% for Medicare).

Federal taxes of $3,352,189 were paid for unemployment, sickness and maternity benefits, compared with $3,544,060 in 1966, a decrease of $191,871, or 5.4%, due to fewer employees.

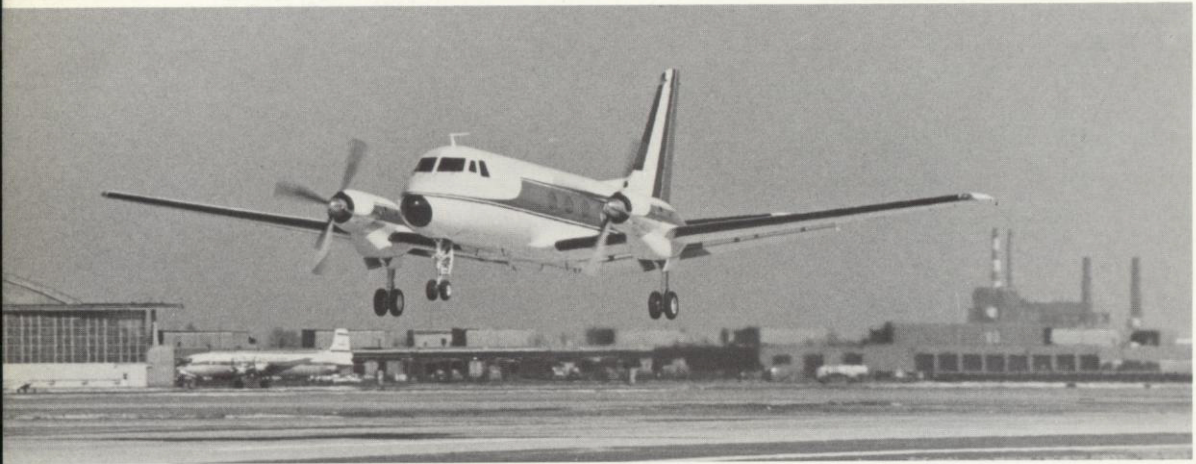
Merger The 1966 Annual Report reviewed the action of the Interstate Commerce Commission in reconsidering its earlier rejection of the proposed merger of Burlington, Great Northern and Northern Pacific. On November 30, 1967, by vote of 8 to 2 with one abstention, the Commission approved the merger and related transactions subject to certain specified conditions, most of which had been agreed to by Burlington and the other applicants to the merger. Petitions for reconsideration of the Commission's order of approval were filed by six parties, two of whom requested further hearings.

While the conditions imposed by the Commission are not inconsistent with the merger agreements, the directors of the three Companies decided that stockholders should have an opportunity to consider them. On March 14, 1968, the stockholders of each of the three principal applicants approved the unification program in each case by a vote in excess of 66-⅔%. On the Burlington, 99.9% of the stockholders voting expressed approval of the proposal. Latest merger savings estimates indicate an annual increase in net, before income taxes, of approximately $39.7 million, and the unification will provide important improvements in service which can be obtained in no other way.

Industrial Development-Real Estate

To increase efficiency, afford greater flexibility and speed in the making of decisions concerning land transactions, and to emphasize the important relationship of industrial development to the Company's future, the former departments of industry and agriculture and real estate were merged April 1, 1967, and now report directly to the president.

New brochures describing industrial properties were prepared and distributed, and industrial development advertising was placed in major newspapers and business magazines to call attention to the assistance provided siteseekers by the departmental staff and by the Company's plane.



Company's Grumman Gulfstream takes off from Chicago's Midway Airport.

The year was one of unsurpassed activity: more than 1,220 transactions involving the sale or lease of property and new or expanded trackage rights agreements were handled by the department. Many sizable plants located along the Company's lines, while others completed or began major expansion programs. Notable is Caterpillar Tractor Company's modern plant near Aurora, Ill., (built on land acquired for them by the railroad) which expanded to 3,187,000-square feet to become the largest on-line plant directly served.

Rental income of Company property increased approximately 10% during the year, to $2,481,000. Acquired for industrial development were 45 acres at Ft. Madison (Iowa); 300 acres at Hastings and 42 acres at Fremont (Neb.); and 44 acres at Riverside (Missouri). Ten microwave relay station sites were purchased, and ten acres at Chicago were acquired for Burlington Truck Lines.

NATIONAL BISCUIT COMPANY
AMERICAN

Cereal plant of National Biscuit Company rises in new Naperville industrial district.

Labor

In nationally negotiated wage agreements, increases of 5% for a one-year period or 6% for an 18-month period became effective January 1, 1967, for all represented employees. For some of the unions who disposed of their 1967 wage demands for 5%, the agreements provide for an additional 2½% effective January 1, 1968.

In the case of shop crafts employees, an award issued by an arbitration board following a two-day strike in July, 1967, placed in effect increases of 6% effective January 1, 1967, and 5% effective July 1, 1968. The award also provided for four 5¢-an-hour increases, at intervals through 1968, for certain skilled classifications.

The request of five non-operating unions (maintenance of way, signalmen, clerks, telegraphers and dining car employees) for expenses away from home was submitted to an arbitration board. Its award, effective October 15, 1967, provides for an expense allowance of $3.00 a day for meals and lodging (or $4.00 a day if lodging is not provided), travel pay and 9¢-per-mile automobile allowance. It is estimated the award will cost an additional $500,000 annually.

An agreement was negotiated with the shop craft organizations to transfer the work and employees of Burlington Refrigerator Express Company from Plattsmouth to Havelock, Nebraska, and to dovetail the seniority of BRE and CB&Q employees.

In the application of the award of Arbitration Board 282 dealing with the elimination of firemen in road freight and yard service, the U. S. Appeals Court ruled that firemen must be employed on new runs created after the award expired. Upon appeal, the U. S. Supreme Court denied certiorari. The railroads now are awaiting entry of decrees from the District Court to provide a clue as to what constitutes a "new run".

Welding new car at Lincoln (Havelock) shop.

Modern facility at Havelock shops houses work force of Burlington Refrigerator Express Company, transferred from older quarters at Plattsmouth, Neb.

BREX
HYDRAULIC CUSHIONING
BURLINGTON REFRIGERATOR EXPRESS
NATIONAL CAR COMPANY

Passenger Traffic

The year's passenger results may well portend the shape of things to come: suburban traffic increased, long-distance traffic declined sharply.

Total passenger revenues of $18,124,753 were $2.8 million, or 13%, less than in 1966. Suburban revenues of $5,212,585, which increased 4%, helped to cushion the 18.7% drop in long-distance passenger train income, to $12,912,168 from $15,894,446 in 1966.

A drop in the average non-commutation revenue per passenger-mile to 2.30 cents, from 2.35 cents in 1966, was due in large part to a decline in first class travel. A 5% increase in long-distance passenger fares went into effect December 1, and should bolster passenger-mile earnings in 1968.

Train Discontinuances During 1967, the Post Office Department discontinued the operation of 22 railway postal cars, resulting in a revenue loss to the Burlington of $900,000. This action, coupled with the increasing preference of the public for intercity travel by private auto and jet plane, enlarged the extent of unprofitable passenger train operations and required management to intensify its scrutiny of them. When it becomes apparent that patronage cannot produce adequate revenues, steps are taken to discontinue such trains so as to lessen their economic drain on other railroad operations. Discontinued during 1967 were train numbers:

15 and 8, between St. Louis and Burlington;

7 and 8, between Chicago and Denver;

14, from Omaha to Chicago;

33 and 34, between Brush (Colo.) and Alliance (Neb.);

29 and 30, between Billings (Mont.) and Wendover (Wyo.);*

29 (The Fast Mail), from Chicago to Omaha; and

23 and 22, between Chicago and St. Paul. (On February 26, 1968, the Interstate Commerce Commission formally permitted discontinuance of the trains, but required that No. 23 be run each Friday and Sunday afternoon for a period of six months.)

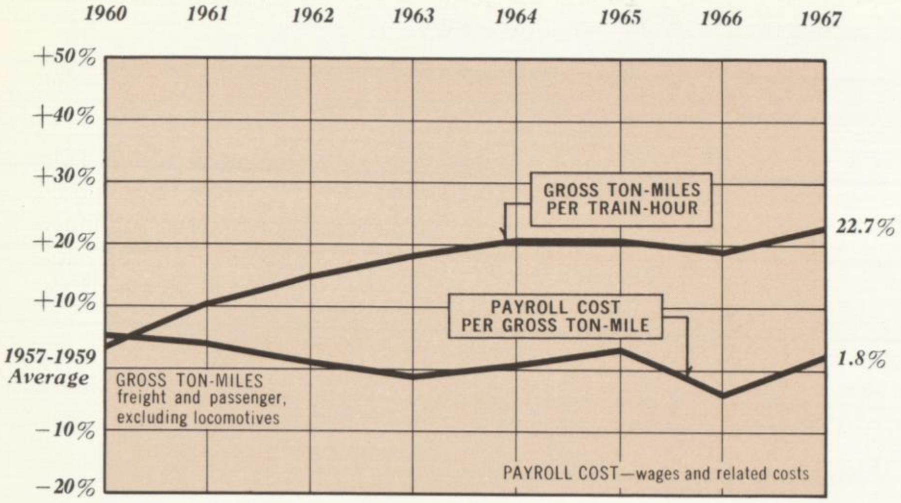
*The train's discontinuance between Wendover and Denver, over subsidiary Colorado and Southern, also was authorized.

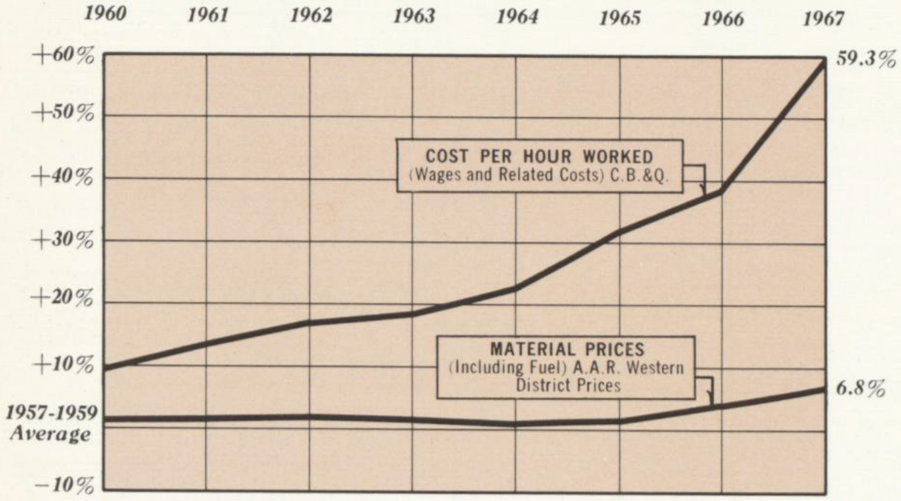
Pending Applications Hearings have been held by the ICC on an application to discontinue Trains 35-36 between Chicago and Kansas City, and hearings are expected to be scheduled during the spring of 1968 on an application to discontinue Trains 23-22 and 26-27, between Omaha and Kansas City.

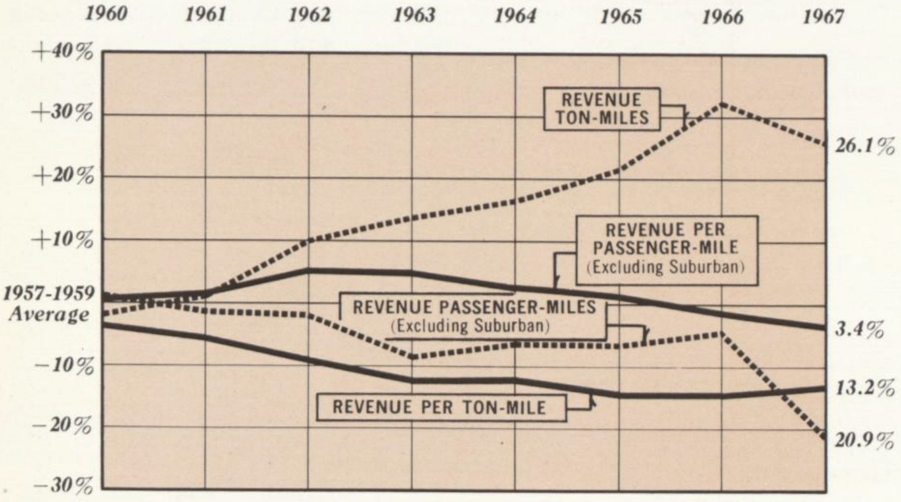
Express Revenues Due to a general decline in business volume of the REA Express Company, revenues for handling such traffic declined 5.8%, to $2,875,924.

Mail Revenues Because of the previously mentioned loss of 22 railway postal car operations during the year, mail revenues declined to $11,524,528 from $12,772,162, or by almost 10%. Some bulk mail now is being carried on fast freight trains, and the Company is making a diligent effort to hold and attract as much mail for freight trains as possible.

Trends







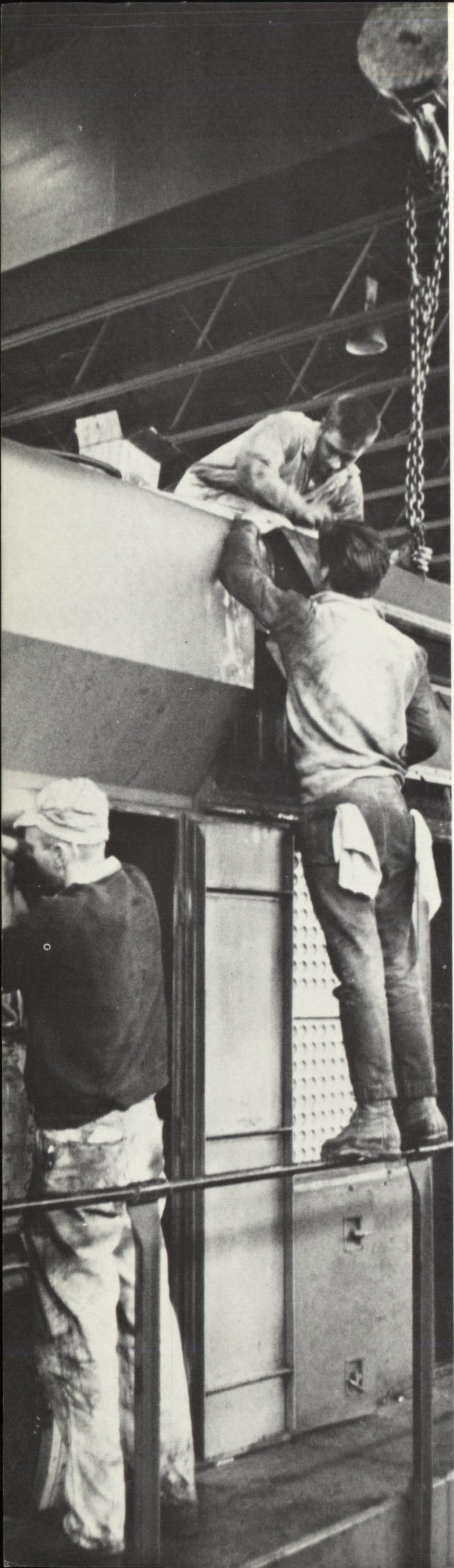
Push-pull suburban train used in Chicago commuter service.

C.B.& Q. R.R. Co. and Subsidiaries

Consolidated Statement of Income and Retained Earnings

	Years ended December 31,	
	1967	1966
Operating Revenue	$327,739,915	$347,011,232
Cost and Expenses (Notes 3, 4 and 6)		
Operating expenses	268,578,554	273,298,081
Taxes, other than federal income taxes	28,184,402	24,707,815
Rents, net	12,603,940	12,600,609
	309,366,896	310,606,505
	18,373,019	36,404,727
Other Income		
Dividends and interest	2,036,420	2,247,499
Sundry, net	4,731,944	3,197,522
	25,141,383	41,849,748
Interest and other fixed charges	11,990,782	10,742,782
Net income before income taxes and minority interest	13,150,601	31,106,966
Provision for federal income taxes (Notes 1 and 2)	250,000	5,500,000
Minority interest in net income of subsidiaries	307,236	524,569
	557,236	6,024,569
Net income, (Transportation companies on I.C.C. basis) (Note 1)	12,593,365	25,082,397
Retained Earnings:		
Balance at beginning of year	479,996,035	460,726,547
	492,589,400	485,808,944
Add (Deduct)		
Dividends paid, $7.50 per share	(12,812,902)	(12,812,902)
Prior years' adjustments (Note 5)	—	6,999,993
Balance at end of year	$479,776,498	$479,996,035

See accompanying notes to financial statements (page 16 and 17)



Rapid engine repairs are made at Lincoln diesel shop.

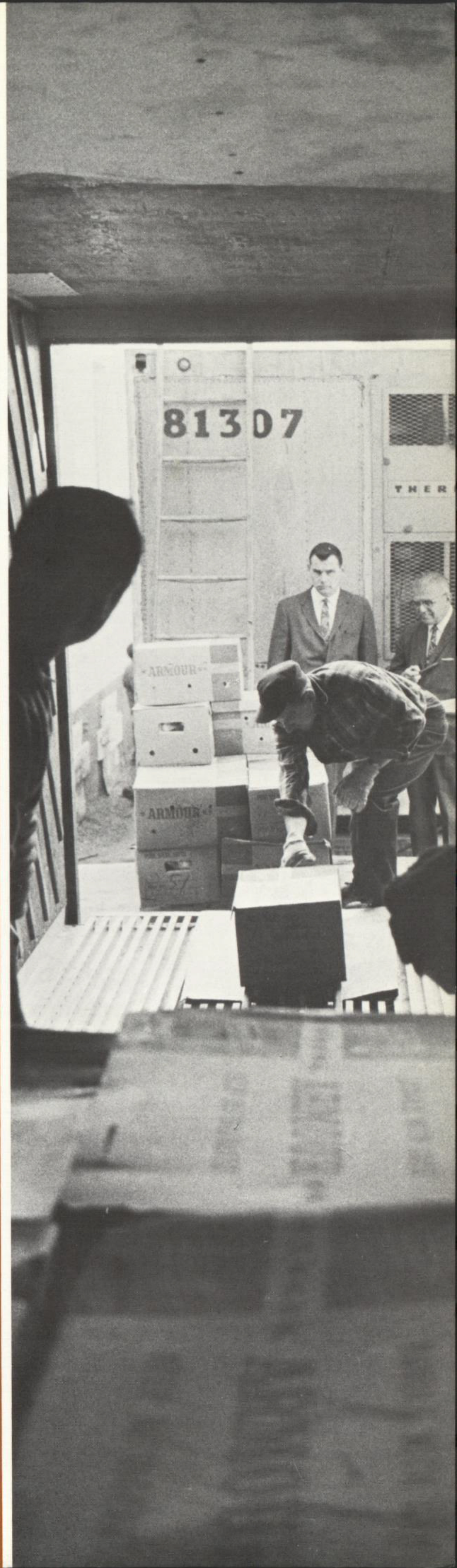
C.B.& Q. R.R. Co. and Subsidiaries

Consolidated Balance Sheet

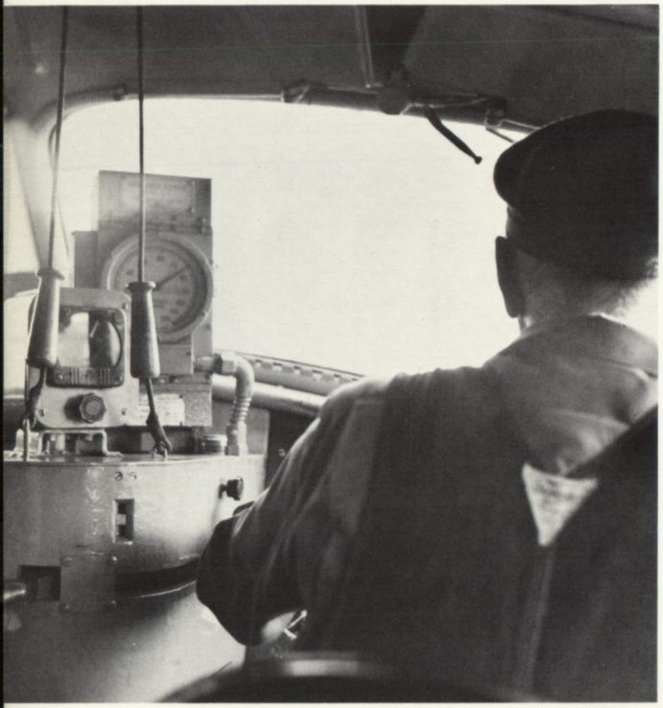
Assets	December 31 1967	1966
Current Assets		
Cash and temporary investments	$ 24,372,416	$ 37,498,113
Accounts receivable	36,986,674	35,055,573
Materials and supplies, at cost	20,431,372	16,460,882
Other current assets	1,496,774	1,224,113
Total current assets	83,287,236	90,238,681
Other Assets		
Investments and advances	30,614,901	38,859,101
Capital funds, deferred charges, etc.	21,959,715	23,276,674
	52,574,616	62,135,775
Properties (Note 3)		
Transportation:		
Land	44,636,099	44,461,816
Other road properties	638,107,822	640,521,136
Equipment	586,216,267	561,055,709
Other, principally land	19,927,708	18,044,492
	1,288,887,896	1,264,083,153
Less - accumulated depreciation and amortization	390,966,447	381,645,680
	897,921,449	882,437,473
	$1,033,783,301	$1,034,811,929

Liabilities		
Current Liabilities		
Accounts payable	$ 37,938,394	$ 43,393,626
Accrued interest and taxes	15,146,197	19,060,382
Other current liabilities	4,144,791	4,691,350
Current portion of long-term debt	19,867,600	18,092,180
Total current liabilities	77,096,982	85,237,538
Long Term Debt	282,954,057	275,785,390
Casualty Reserves and Other Liabilities (Notes 1 & 7)	8,659,462	8,414,364
Minority Interest in Subsidiaries	14,457,202	14,539,502
Stockholders' Equity		
Capital stock, $100 par value, authorized and outstanding - 1,708,391 shares	170,839,100	170,839,100
Retained earnings (Notes 1, 3 and 5)	479,776,498	479,996,035
Total Stockholders' equity	650,615,598	650,835,135
	$1,033,783,301	$1,034,811,929

See accompanying notes to financial statements (page 16 and 17)



Meat products are loaded into refrigerated container aboard flat car equipped by Burlington engineers with underslung generating plant to allow full utilization of car's deck.



Up front on a Zephyr at 75 per.

Burlington's giant insulated cars can accommodate two levels of stainless steel containers in which "primal" cuts of meat are packed, providing more sanitary handling conditions.

Notes to Financial Statements

Note 1: Principles of Accounting:

The financial statements, which have been prepared in conformity with methods of accounting prescribed by the Interstate Commerce Commission, vary from generally accepted accounting principles because deferred income taxes have not been provided for the net excess of amortization and accelerated and guideline depreciation deducted for tax purposes over the prescribed depreciation recorded in the accounts.

The adjustments necessary to present consolidated net income in conformity with generally accepted accounting principles would be:

	1967	1966
Net income in conformity with ICC principles	$12,593,365	$25,082,397
Adjustments for estimated income tax effect of:		
Amortization of defense facilities	1,700,000	1,900,000
Accelerated and guideline depreciation	(4,000,000)	(6,200,000)
Net income stated in conformity with generally accepted accounting principles	$10,293,365	$20,782,397

The adjustments for the tax effect of accelerated and guideline depreciation have been reduced by available investment tax credits of $3,298,000 in 1967 and $2,373,000 in 1966. The accumulated income tax effect at December 31, 1967, not reflected in the consolidated balance sheet, is estimated to be $81,000,000, based on current rates.

Consolidated retained earnings at December 31, 1967 include $41,261,267 for the undistributed earnings of the subsidiaries since dates of acquisition. This amount is not reflected in the separate financial statements of the parent company and its net income would be $1,657,183 less in 1967 and $1,271,805 greater in 1966 if the investments in the subsidiaries had been reflected under the generally accepted "equity" method.

Note 2: Investment Tax Credits:

Tax credits arising from acquisitions of equipment and certain other properties have been applied under the "flow-through" method in reduction of current provisions for federal income taxes. Credits applied to 1967 and 1966 provisions were $60,000 and $2,025,000 respectively. At December 31, 1967, unused investment credit carryovers of approximately $12,700,000 (including $5,671,000 applied in reduction of the provisions for deferred income taxes) are available to offset future years federal income taxes. The carryovers, if not used, will expire in 1969 through 1974.

Note 3: Properties:

Gross properties are stated at estimated original cost determined on the basis of I.C.C. physical inventories of properties conducted prior to 1920, plus cost of additions and betterments and less retirements since that date. The amount by which the book cost of The Colorado & Southern Railway Company and the Fort Worth & Denver Railway Company properties exceeded the cost determined on the basis of the physical inventory is reflected in the property accounts of the individual companies and is being amortized against retained earnings over a period of years. For purposes of consolidation, properties and retained earnings have been reduced by $30,863,655 representing the unamortized portion of such excess cost.

As prescribed by the Interstate Commerce Commission, approximately $342,755,000 of rails, ties and other track materials are not depreciated. An acceptable practice of replacement accounting for such properties is followed. Under this method, replacements in kind are charged to expenses and only improvements and additions are capitalized. Gains or losses upon retirement of such properties are recorded in operating expense.

All other transportation properties are depreciated on the straight line method at various prescribed group rates. Upon sale or retirement of such depreciable property, cost thereof, less salvage, is charged to the accumulated depreciation account.

Charges to consolidated operating expenses were as follows:

	1967	1966
Track replacements	$12,197,507	$14,964,648
Depreciation of other properties	25,858,284	25,073,396
	$38,055,791	$40,038,044

Note 4: State Tax Refunds:

Refunds of prior year state property taxes are credited to net income. The effect of such refunds on net income was $227,866 in 1967 and $1,454,523 in 1966.

Note 5: Retained Earnings Adjustment:

The net credit to retained earnings in 1966 consisted primarily of an adjustment of prior years' depreciation prescribed by the Interstate Commerce Commission.

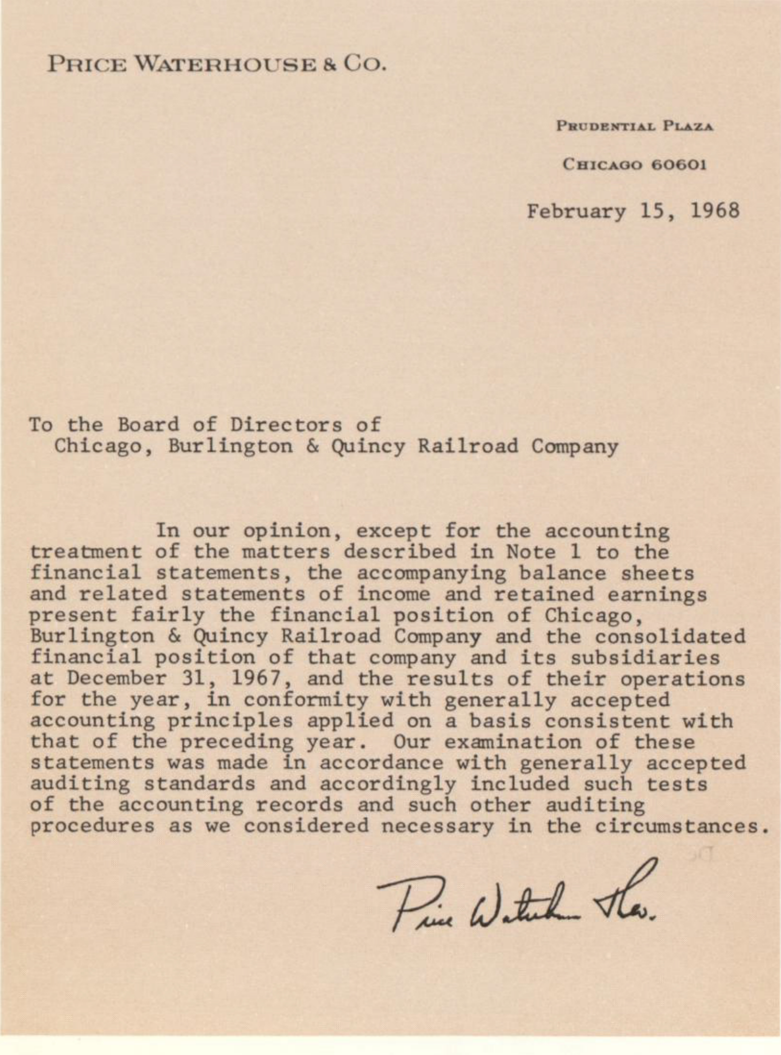
Note 6: Pension Plans:

The Company and its subsidiaries have unfunded retirement plans for executive and supervisory personnel which supplement benefits received under the Railroad Retirement Act. The provision for pension costs charged to operating expenses was $2,384,331 in 1967. Pension expense is provided on the accrual basis, including amortization of past service costs over a 40 year period. Based on recent actuarial studies, the unfunded vested benefits are approximately $16,000,000, at December 31, 1967.

Note 7: Contingent Liabilities and Commitments:

The Company and its subsidiaries have guaranteed, jointly with others, certain obligations issued by affiliated companies. At December 31, 1967, the total amount of obligations so guaranteed was $242,892,000 and the consolidated contingent liability under such guaranties, assuming no default by the co-guarantors, was $22,786,000.

Under service interruption policies which insure the Company and its railroad subsidiaries against work stoppage losses, additional premiums, subject to a maximum premium of $4,992,000 may be charged to the Company or its railroad subsidiaries in the event such losses are sustained by other railroads holding similar policies.



PRICE WATERHOUSE & CO.

PRUDENTIAL PLAZA
CHICAGO 60601

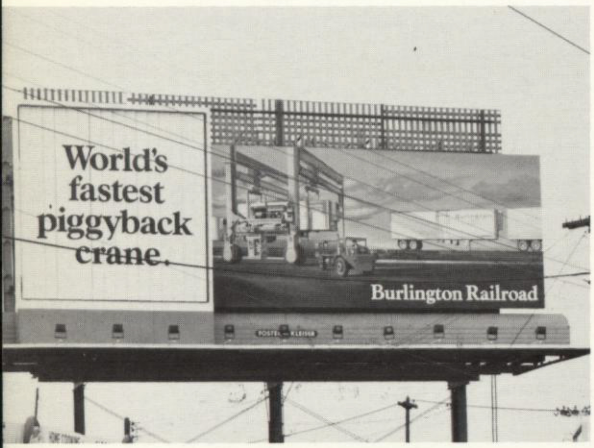
February 15, 1968

To the Board of Directors of
Chicago, Burlington & Quincy Railroad Company

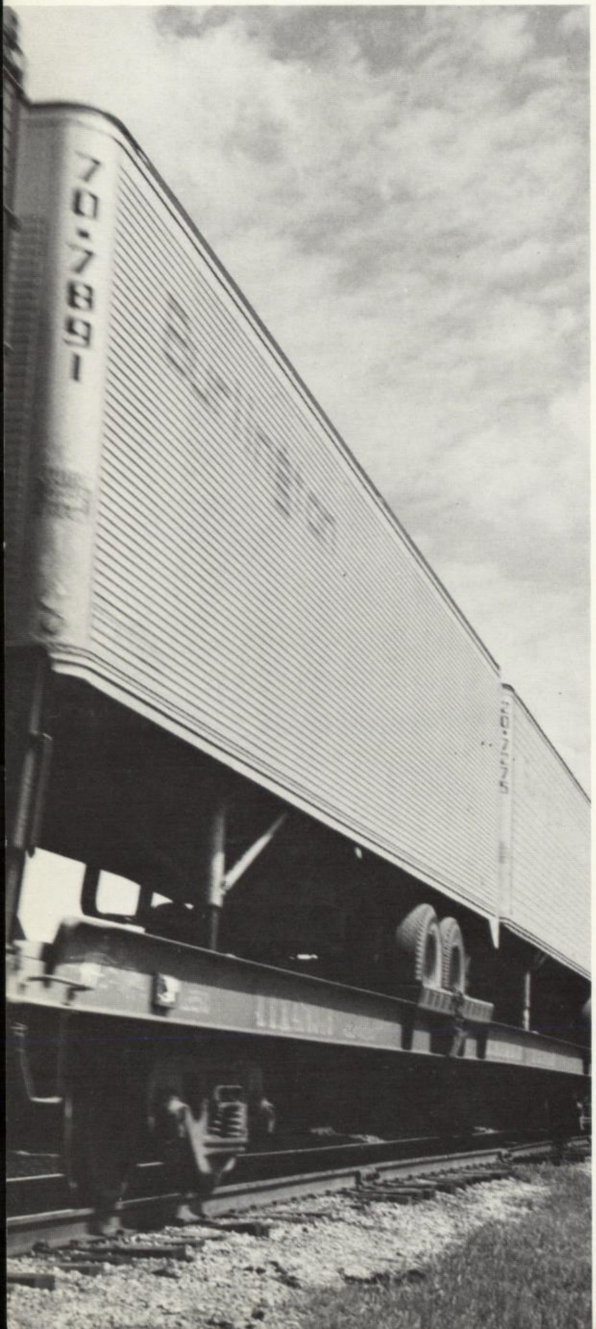
In our opinion, except for the accounting treatment of the matters described in Note 1 to the financial statements, the accompanying balance sheets and related statements of income and retained earnings present fairly the financial position of Chicago, Burlington & Quincy Railroad Company and the consolidated financial position of that company and its subsidiaries at December 31, 1967, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

Cars are moved quickly at new one-spot repair centers.



Colorful billboard, rotated between high-traffic locations in Chicago, advertises piggyback service, below.



Chicago, Burlington & Quincy Railroad Company

Comparative Statement of Income and Retained Earnings

	Years Ended December 31, 1967	1966
Railway Operating Revenues		
Freight	$233,803,333	$241,524,282
Passenger	18,124,753	20,902,906
Mail	11,524,528	12,772,162
Express	2,875,924	3,053,813
Other	10,755,470	11,369,184
	277,084,008	289,622,347
Railway Operating Expenses (***Notes 3, 4 & 6***)		
Maintenance of way and structures	32,992,679	36,403,206
Maintenance of equipment	50,688,099	50,848,211
Traffic	9,147,031	8,834,454
Transportation	115,814,243	115,878,476
Miscellaneous operations	2,809,060	3,180,417
General	14,101,082	12,478,163
	225,552,194	227,622,927
Net Revenue From Railway Operations	51,531,814	61,999,420
Taxes other than Federal Income (Note 4)	24,100,614	20,431,335
Rentals for equipment and facilities, Net Dr.	8,874,828	7,554,211
Net Railway Operating Income	18,556,372	34,013,874
Other Income (***Note 1***)		
Dividends and Interest from Subsidiaries	1,775,315	395,182
Other	1,477,786	1,763,807
Miscellaneous	3,352,388	3,178,761
	25,161,861	39,351,624
Other Deductions		
Interest and fixed charges	10,675,894	9,556,282
Miscellaneous	435,668	677,241
	11,111,562	10,233,523
Net Income Before Income Taxes	14,050,299	29,118,101
Provision for Federal Income Taxes(Notes 1 & 2)	(200,249)	5,307,509
Net Income—In conformity with I.C.C. accounting rules (Note 1)	14,250,548	23,810,592
Retained Earnings		
Balance at beginning of year	437,077,585	419,109,872
	451,328,133	442,920,464
Add (Deduct)		
Dividends—$7.50 per share	(12,812,902)	(12,812,902)
Adjustments to Retained Earnings (Note 5)	—	6,970,023
Balance at end of year	$ 438,515,231	$437,077,585

See Pages 16 and 17 for notes to financial statements.

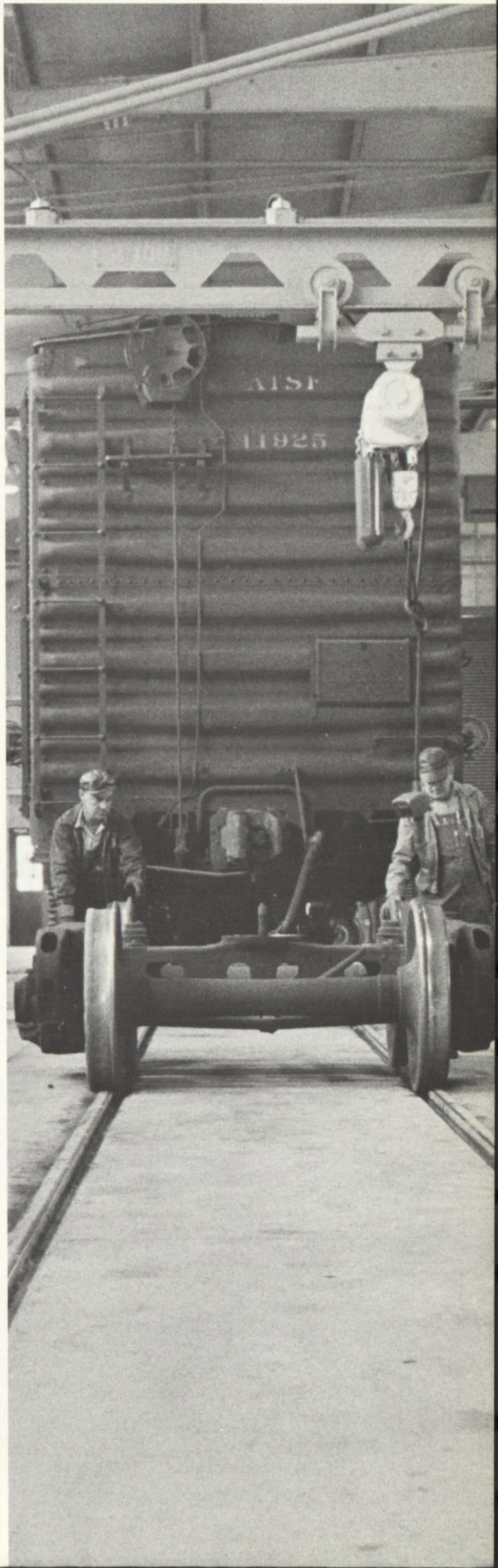
Chicago, Burlington & Quincy Railroad Company

Balance Sheet

	December 31	
Assets	**1967**	**1966**
Current Assets		
Cash and temporary investments	$ 18,694,908	$ 32,469,017
Accounts receivable	36,875,648	33,417,376
Materials and supplies, at cost	18,891,279	14,116,111
Other current assets	858,545	471,748
Total current assets	75,320,380	80,474,252
Other Assets		
Investments and advances (Note 1)	51,208,102	60,258,995
Capital funds, deferred charges, etc.	15,802,981	16,575,439
	67,011,083	76,834,434
Properties (*Note 3*)		
Transportation:		
Land	41,076,034	40,896,404
Other road properties	560,930,621	556,551,801
Equipment	518,717,812	498,711,763
Other, principally land	16,508,534	14,857,910
	1,137,233,001	1,111,017,878
Less—accumulated depreciation and amortization	344,355,592	337,281,029
	792,877,409	773,736,849
	$ 935,208,872	$ 931,045,535

Liabilities	1967	1966
Current Liabilities		
Accounts payable	$ 31,588,169	$ 36,675,994
Accrued interest and taxes	13,590,755	17,684,692
Other current liabilities	3,536,752	3,533,380
Current portion of long-term debt	16,950,052	15,087,201
Total current liabilities	65,665,728	72,981,267
Long-term Debt	252,238,088	242,833,455
Casualty Reserves and Other Liabilities (***Notes 1 & 7***)	7,950,725	7,314,128
Stockholders' Equity		
Capital stock, $100 par value, authorized and outstanding - 1,708,391 shares	170,839,100	170,839,100
Retained earnings (Notes 1, 3 and 5)	438,515,231	437,077,585
Total Stockholders' equity	609,354,331	607,916,685
	$ 935,208,872	$ 931,045,535

See accompanying notes to financial statements (page 16 and 17)



Interior of Kansas City's modern car repair center.

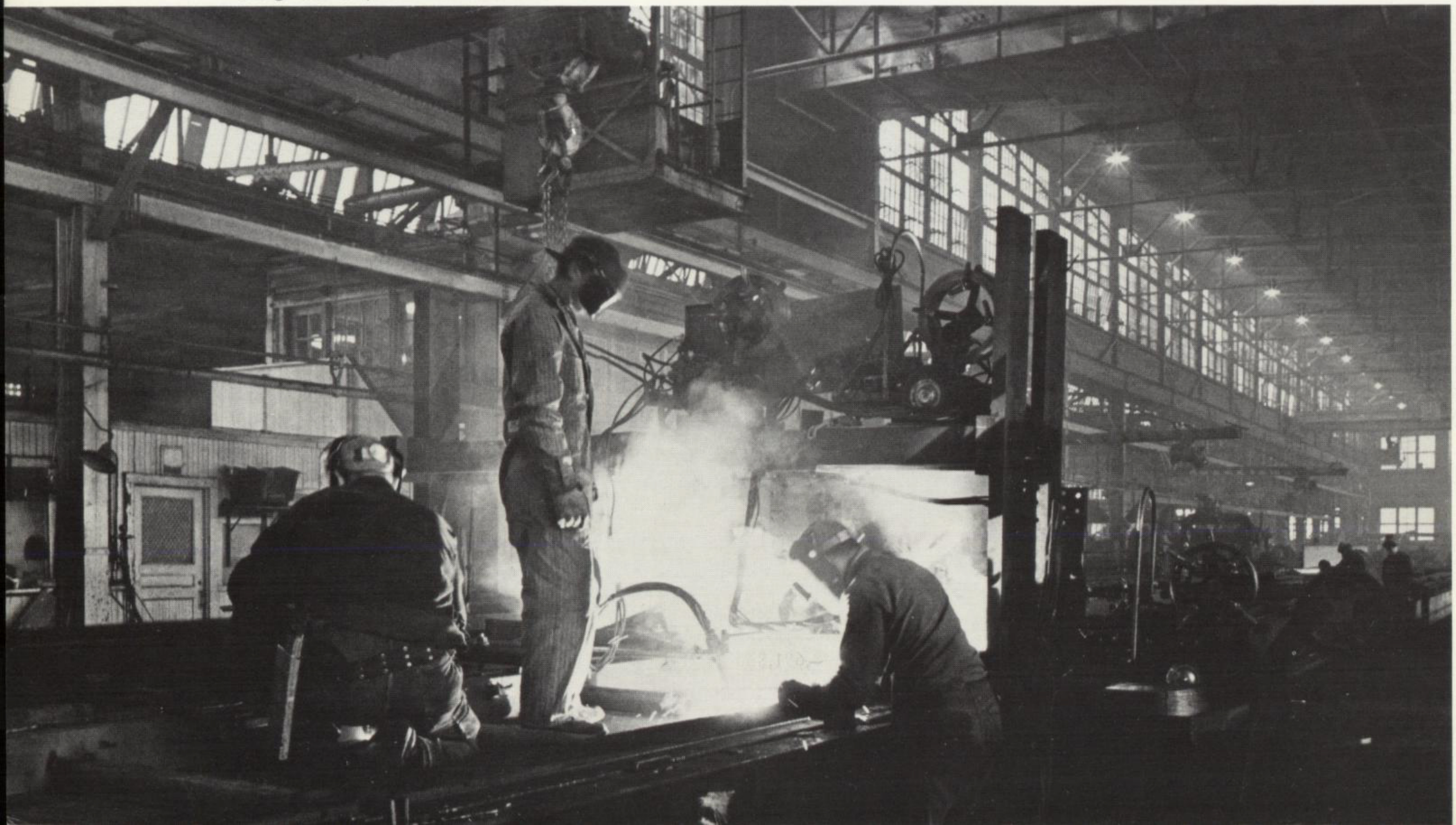
Chicago, Burlington & Quincy Railroad Company

Changes in Working Capital

January 1 to December 31, 1967

Balance at beginning of year		$ 7,492,985
Sources of Working Capital		
Net income	$14,250,548	
Depreciation and other non-cash income items	23,155,757	
Sale of property, investments, and other assets—net	13,456,264	
Proceeds from equipment financing	29,949,221	
Capital funds, deferred charges, etc.	772,458	
		81,584,248
Application of Working Capital		$89,077,233
Additions to operating and non-operating property	$46,065,091	
Reduction of long-term debt	20,544,588	
Dividends paid on capital stock	12,812,902	
		79,422,581
Balance at end of year		$ 9,654,652

Welding car sill at Havelock shop, using wire-feed, semi-automatic machine.



Investments in Affiliated Companies

December 31, 1967

		Investment in			
	Percent of ownership	Stock	Bonds, notes and advances	Total	Dividend and interest income 1967
Subsidiary Companies					
Burlington Equipment Co.	100.00	$ 5,000	$ 500,000	$ 505,000	$ —
Burlington Refrigerator Express Co.	100.00	100,000	—	100,000	200,000
Burlington Truck Lines, Inc.	100.00	750,000	405,267	1,155,267	—
Colorado and Southern Railway Co., The	74.72	22,172,276	137,501	22,309,777	375,315
St. Louis and Kansas City Land Co.	100.00	100,000	8,509,433	8,609,433	1,200,000
Winona Bridge Railway Co.	66.67	300	—	300	—
Total		$23,127,576	$ 9,552,201	$32,679,777	$1,775,315
Affiliated Companies					
Atchison Union Depot and Railroad Co.	37.50	$ 27,000	$ 7,665	$ 34,665	$ —
Belt Railway Co. of Chicago, The	8.33	240,000	301,194	541,194	19,251
Chicago Union Station Co.	25.00	—	5,913,569	5,913,569	—
Davenport, Rock Island and North Western Railway Co., The	50.00	1,748,182	1,247,598	2,995,780	—
Denver Market & Produce Terminal, Inc.	20.00	50,000	211,508	261,508	—
Denver Union Terminal Railway Co., The	16.67	5,000	740,221	745,221	—
Fort Worth & Denver Ry. Co.	—	—	—	—	2,021
Illinois Northern Railway	25.00	250,940	12,500	263,440	—
Illinois Terminal Railroad Co.	9.09	1,818	—	1,818	10,000
Iowa Transfer Railway Co.	20.00	16,100	—	16,100	—
Kansas City Terminal Ry. Co.	8.33	100,000	1,136,060	1,236,060	—
Keokuk Union Depot Co.	40.00	8,024	3,972	11,996	—
Minnesota Transfer Railway Co.	11.11	91,300	315,465	406,765	3,487
Packers Car Line Co.	19.18	6,140	—	6,140	16,885
Paducah & Illinois Railroad Co.	33.33	3,333	1,610,926	1,614,259	72,927
Pullman Co.	2.42	489,868	—	489,868	—
Railway Express Agency Inc.	2.80	2,700	780,719	783,419	39,036
Saint Paul Union Depot Co., The	12.50	130,475	259,966	390,441	9,336
Terminal Railroad Association of St. Louis	6.25	—	—	—	—
Trailer Train Co.	2.44	50,000	249,816	299,816	21,790
Total		$26,348,456	$22,343,380	$48,691,836	$1,970,048

Stenciling new box car at Havelock.

Chicago, Burlington & Quincy Railroad Company

Directors and Officers

Directors

John M. Budd
President, Great Northern Railway Company
St. Paul, Minn.

Cris Dobbins
Chairman of the Board and President, Ideal Basic Industries, Inc.
Denver, Colo.

R. W. Downing
Executive Vice President, Great Northern Railway Company
St. Paul, Minn.

Guy R. Glover
Vice President—Traffic, Chicago, Burlington & Quincy Railroad Company
Chicago, Ill.

J. C. James
Retired Executive Vice President and General Counsel
Chicago, Burlington & Quincy Railroad Company
Chicago, Ill.

Robert S. Macfarlane
Chairman of the Board, Northern Pacific Railway Company
St. Paul, Minn.

Eldon Martin
Vice President and General Counsel
Chicago, Burlington & Quincy Railroad Company
Chicago, Ill.

W. W. McCallum
President and Chief Executive Officer, John Morrell & Company
Chicago, Ill.

L. W. Menk
President, Northern Pacific Railway Company
St. Paul, Minn.

William J. Quinn
President, Chicago, Burlington & Quincy Railroad Company
Chicago, Ill.

Robert D. Stuart, Jr.
President and Chief Executive Officer, The Quaker Oats Company
Chicago, Ill.

Executive Committee

William J. Quinn, *Chairman*

John M. Budd
W. W. McCallum
J.C. James
Cris Dobbins
Robert D. Stuart, Jr.
L. W. Menk

The above were Directors as of December 31, 1967.

Construction of third aluminum-and-steel unit train at Havelock.

New, high-speed sander services locomotives at Cicero yard.

9284
9284
Burlington
Burlington

Officers

William J. Quinn
President

Eldon Martin
Vice President and General Counsel

Guy R. Glover
Vice President—Traffic Department

W. N. Ernzen
Vice President and Comptroller

W. K. Bush
Vice President—Management Information Services

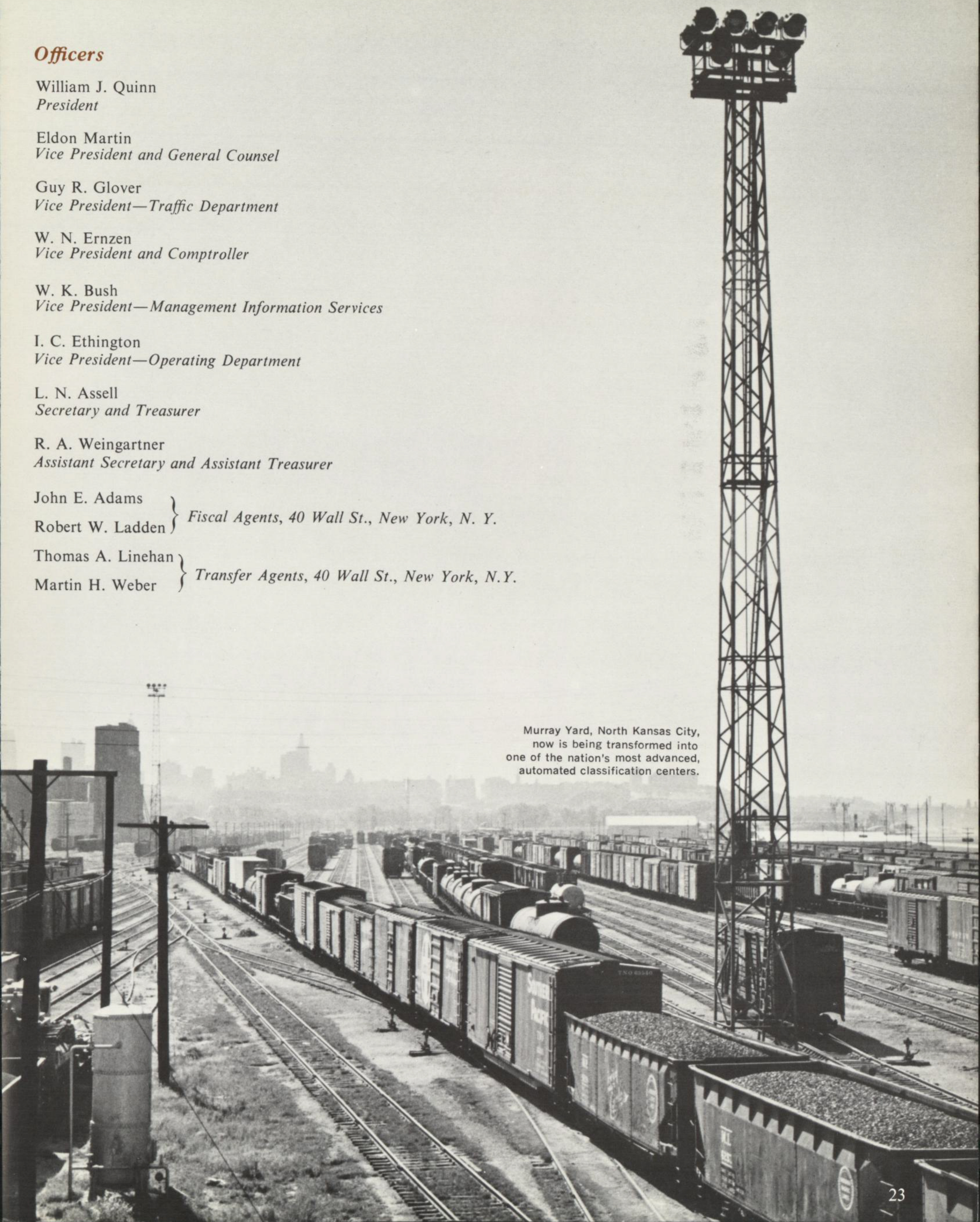
I. C. Ethington
Vice President—Operating Department

L. N. Assell
Secretary and Treasurer

R. A. Weingartner
Assistant Secretary and Assistant Treasurer

John E. Adams
Robert W. Ladden } *Fiscal Agents, 40 Wall St., New York, N. Y.*

Thomas A. Linehan
Martin H. Weber } *Transfer Agents, 40 Wall St., New York, N.Y.*



Murray Yard, North Kansas City, now is being transformed into one of the nation's most advanced, automated classification centers.

Changes in Organization

Directors Elected

Guy R. Glover

Officers Elected

R. A. Weingartner	*Assistant Secretary and Assistant Treasurer*
Robert W. Ladden	*Fiscal Agent*

Officers Appointed

G. F. Defiel	*Director, Industrial Development and Real Estate*
J. F. Diebolt	*Assistant Vice President*
J. F. Dunseth, Jr.	*Director of Industry Marketing*
Clark Hungerford, Jr.	*Director of Industrial Engineering*
L. G. Key	*General Manager—Real Estate*
E. A. Kohl	*Manager, Disbursement Accounting*
E. E. Numrich	*Assistant Comptroller*
J. C. Weiland	*General Manager—Industrial Development*

Cover Photo

If a giant Mississippi River catfish were to leap onto the deck of the new bridge linking Quincy (Ill.) and West Quincy (Mo.), this is what he might see. Fisheye lens photo was made by Edward Hain of the public relations and advertising department. All photographs used in this report were made by members of the department.

Burlington
Route